

**Rainy Day Fund / Revenue Volatility Working Group**

# Rainy Day Fund Proposal

September 28, 2007

#	Issue	Current Law / Practice	Recommendation
1	What is the purpose of rainy day funds? Should there be limitations on the use of these funds?	Funds may be used for: <ul style="list-style-type: none"> <li>• operating deficits</li> <li>• certain state settlement agreements</li> <li>• retroactive tax refunds</li> </ul>	(1) Recommend that budget reserve accounts be used for relatively short-term purposes, to get by until the next General Session, when the Legislature can consider the budget as a whole (2) Retain existing uses of budget reserve accounts, with clarification of "budget deficit" rather than "operating deficit"
2	Should the General Fund and Education Fund have a separate rainy day fund?	Separate rainy day funds for General Fund and Education Fund (and Disaster Recovery)	Continue current policy of separate funds
3	Based on the volatility of revenues, how big should the fund(s) be? Are separate targets needed for the General Fund and Education Fund budget reserve accounts?	Automatic surplus transfers limited to 6% of total General Fund and Education Fund appropriations, with no hard cap on total fund balances	(1) Establish automatic surplus transfer targets of: (a) 6% for the General Fund Budget Reserve Account; and (b) 7% for the Education Fund Budget Reserve Account (2) Continue existing policy of no hard cap on fund balances, retaining the ability for the Legislature to control total balances above the surplus transfer targets through the appropriation process (3) LFA and GOPB to report to the Tax Review Commission and Executive Appropriations Committee every 3 years with updated analysis on revenue volatility and implications for rainy day fund size
4	What should be the trigger(s) for deposits into the budget reserve account(s)?	Funds are deposited by legislative appropriation, by automatic transfer of a portion of a surplus (up to the cap), and by the deposit of interest earnings on fund balances	(1) Automatic transfer of 25% of surplus up to the transfer targets (2) Legislative appropriations (3) Investment earnings on fund balances
5	What should be the trigger(s) for withdrawals from the budget reserve account(s)?	General Fund and Education Fund budget reserve accounts are restricted accounts. As such, funds must be appropriated by the Legislature (constitutional majority) before they are expended.	Continue current policy of requiring legislative appropriation to utilize funds (constitutional majority vote....understanding that in many cases, a 2/3 vote will be required for an immediate effective date)